



# LFC Newsletter

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**Legislative Finance Committee**

Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

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## **From the Chairman More**

During the recession, salary and hiring freezes and budget-balancing moves that forced state workers to pay more for their benefits meant most state employees watched their pay go down while their workload went up. Now, even though they received a 1 percent across-the-board pay hike this year and no longer have to pay a temporary increase in pension contributions, many will see their pay cut again because both social security and healthcare deductions are going up. And healthcare and pension benefit contributions are expected to continue going up for the next few years.

In the meantime, the administration is not spending the personnel funding it has. LFC staff estimates agencies in FY14 won't spend \$100 million or more of what they will get for pay and benefits. If last year is any indication, agencies are likely to shift those dollars to other expenses or return it at the end of the year. The executive could easily provide an additional pay hike of 1 percent to 2 percent without raising spending levels or dipping into reserves.

And it should, not just because it will help state employees and raise morale in state offices but because it will help boost the state's economy.

Most state employees are solidly middle-class, and when they get more money in their pockets, they spend it. A pay raise for state employees means more money spent at the grocery and department stores, in restaurants and at car dealers. Paying state employees more will ripple through the economy.

In addition, state employee pay is falling behind the region and the nation, hurting recruitment and retention. Over the past 10 years, average base pay in most other states in the region has gone up. In New Mexico, it's dropped. Pay for certain jobs is now substantially behind the average.

The state needs the best and the brightest and must offer competitive pay to get them. Keeping pay low might save money immediately but it cost much more in the long run in the quality and quantity of the work product.

During the worst of the recession, state employees had to sacrifice so the state could balance its budget. Now that the economy is starting to recover, it's time for those sacrifices to end.

Representative Luciano "Lucky" Varela  
Chairman

## **Unemployment Tech Revamp Experiences Defects, Overruns**

The nearly \$50 million revamp of the unemployment insurance tax and claims computer system, four years in the making, went live in January but continues to have technical issues and unexpected costs.

An LFC evaluation of the project, scheduled to be presented to the committee at 4:30 p.m. on July 17, finds the new system suffers from data conversion problems, an inadequate ability to communicate with other computer systems, and the lack of a disaster recovery plan.

The report says the project has had inadequate oversight, partially because the state Information Technology Commission has been inactive for almost three years.

Cost overruns mean the department has had to cut back on warranty coverage and now has warranty for four months instead of the original year.

In addition, Workforce Solutions Department technology staff do not have the skills to maintain the system and the department will need to pay an

outside contractor for maintenance and operation.

Three different companies are under contract for the project. The agreement with Deloitte, the main contractor, has been amended five times, with costs increasing from the original \$17.2 million to \$38.6 million.

ACRO, a workforce contractor with the department for many years before the modernization project, has earned \$2 million on the revamp, mostly in \$200,000 agreements that fall under the threshold for certain reviews. The department says ACRO is needed because state salary constraints make it difficult to hire qualified technology staff.

The department's contract with Kemtah for project management has grown from \$845,000 to \$2.7 million, mostly because additional requirements were added to the computer system.

LFC staff report the system had 568 outstanding defects as of May, including 390 ranked as critical or severe.

## **Business Incubators Generate NM Jobs, Tax Revenue**

Business incubators are a solid economic development investment for the state, providing a 57 to 1 return on state funding, LFC analysis shows.

A recent study found the state invested \$549,000 in business incubators between 2007 and 2010 and received \$32 million in tax revenues from the business activity generated. Local governments received another \$20.5 million.

The details of the study on incubators will be part of a hearing on the state's investments in economic development scheduled for 8:30 a.m. July 19.

State appropriations to incubators dropped off during the recession and federal funding cuts could be coming.

Business incubators help small, entrepreneurial companies during start-up, providing them with a physical location and management, technical and administrative support.

New Mexico has five active and certified incubators that have helped

establish hundreds of business with thousands of jobs.

The 57-1 return from the state's investment in incubators exceeds the national average of 30-1. Other studies show more than 80 percent of the companies that get incubator help stay in their communities and those companies are more likely to survive than other businesses.

The legislative hearing will also look at the state's small business development centers and its investments in businesses through the State Investment Council.

LFC analysis suggests New Mexico suffers from not having a statewide technology transfer program. While both Sandia National Laboratories and Los Alamos National Laboratory have technology transfer offices, federal rules prevent the labs from giving preference to New Mexico businesses and there is no effort to make local business aware of available technology.

# Young Patients Get More Behavioral Health Dollars

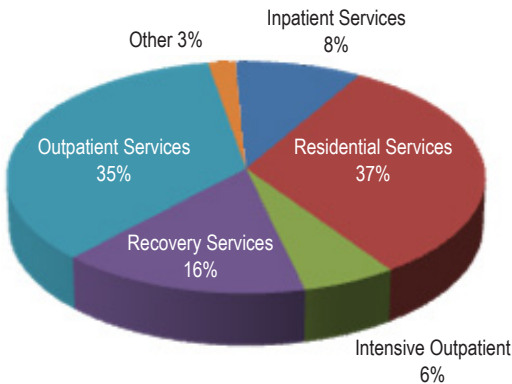
Spending on patients under the age of 21 made up nearly 70 percent of the FY12 total spent on behavioral health through OptumHealth, the private contractor that manages the state's behavioral health services.

Services provided through OptumHealth represented \$248 million of the total \$355 million spent by the multi-agency Behavioral Health Purchasing Collaborative in FY12. The remaining \$107 million went to administrative costs and services that fall outside the OptumHealth contract.

The state in FY12 spent \$71 million on 24-hour residential treatment for children with behavioral and substance abuse treatment, a figure that represents 30 percent of the OptumHealth-managed services and 43 percent of the cost of services for children. In comparison, half the dollars spent on adults went to outpatient services.

LFC staff indicate Behavioral Health Collaborative managers believe more young patients in residential care could be treated just as well with outpatient services closer to their homes.

**Behavioral Health Claims through OptumHealth**  
**\$248 Million Total**



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Writer, Editor - Helen Gaussoin    Staff Editor - Beth Wojahn

**Questions, comments: 505-986-4550**  
**[www.nmlegis.gov/lfc](http://www.nmlegis.gov/lfc)**

**Please contact Ms. Sharon Boylan at [sharon.boylan@nmlegis.gov](mailto:sharon.boylan@nmlegis.gov)**  
**if you would prefer to receive this newsletter electronically.**

## On the Table

### Total Revenues Close to Estimates

Recurring FY13 state revenues were at about \$5.69 billion at the end of April, a half-percent better than the February 2013 estimate. However, preliminary May corporate income receipts of \$2.4 million were a fraction of the \$26 million expected and federal mineral leasing revenue is down because of sequestration. Year-to-date general fund recurring revenues are \$4.51 billion, down from a year ago.

### Employment Stable, Jobs Up

The unemployment rate in May was 6.7 percent, the same as April but down 7 percent from a year ago. Job growth was 1 percent and was particularly strong in the Albuquerque area, which saw the largest year-to-year job growth since 2007. The number of jobs was down slightly in Las Cruces and Santa Fe.

### Big Prize Draws Scholarship Funds

The New Mexico Lottery Authority transferred more than \$5.3 million to the legislative lottery tuition fund in June, the largest monthly transfer ever. Ticket sales were boosted by a \$600 million Powerball prize in May. At the end of June, scholarship funds totaled \$40.2 million, compared with \$38.3 million at the same time last year.

### State Still Short Parole, Prison Officers

The vacancy rate among correctional officers is almost 30 percent and the rate among probation and parole officers is 23 percent. While two cadet classes added 44 correctional officers, 63 officers left the Corrections Department.

### Female Inmate Growth Expected To Fill Beds

The New Mexico Sentencing Commission is projecting the number of men in the state prisons will grow slowly but the commission expects significant growth among the women, with the number of female inmates exceeding available space by FY15. The number of women is growing because more are serving longer sentences and serving parole in the prisons, the commission reports.

### State Parks Visitors Down

Just under 315,000 people visited New Mexico's 35 state parks over the Memorial Day weekend, down 41 percent compared with the 2012 holiday weekend. The drop in visitors meant a comparable 41 percent drop in revenue. The state parks director indicated drought was an issue in drawing visitors. Conchas Lake had reached its lowest recorded level before July rains added four feet. Three lakes remain closed to motorized boating. However, the State Parks Division has reopened three state parks that had been closed because of fire restrictions.

### Transitions

The LFC has hired Andrew Rauch as a program evaluator. Rauch has a master's degree in public policy from the College of William and Mary in Virginia and a bachelor's in economics from McDaniel College in Maryland.

Legislative Finance Committee  
325 Don Gaspar Street Ste101  
Santa Fe NM 87501